

STATEMENT OF KENNETH C. CLAYTON  
ACTING ADMINISTRATOR  
AGRICULTURAL MARKETING SERVICE  
U.S. DEPARTMENT OF AGRICULTURE  
BEFORE THE  
HOUSE COMMITTEE ON AGRICULTURE  
MAY 24, 2001

Mr. Chairman and members of the Committee, thank you for the opportunity to discuss implementation of the Livestock Mandatory Reporting Act of 1999 and the recent problem the Agricultural Marketing Service (AMS) has experienced in implementing this new program.

Let me assure you at the outset that Secretary Veneman is fully aware of the concerns that Members of Congress, producers and others in the meat industry have expressed about the livestock and meat market reporting program since mandatory price reporting was implemented on April 2, 2001. As the Secretary has publicly indicated, she was extremely disturbed by the error discovered last week in the reporting of Choice and Select boxed beef cutout and primal cut values, and has taken action to ensure the integrity and accuracy of information being reported by USDA.

Before discussing the error that was discovered last week, I would like to first provide some brief background on the new mandatory price reporting program. The Livestock Mandatory Reporting Act of 1999 (Act) was passed in October 1999. It required that a program of information collection be developed regarding the marketing of cattle, swine, and boxed beef. Authority was also provided to develop a mandatory reporting system for sheep and lamb.

Prior to passage of the Act, AMS obtained information on negotiated or cash sales through voluntary cooperation by packers and other industry members. However, information on livestock and meat sold through formula and forward contracting arrangements was not generally provided to USDA. With the growing importance of these marketing arrangements, a serious gap was emerging in publicly available market information for cattle, swine, and sheep.

The Act is intended to address this deficiency. In contrast to the voluntary reporting program, the mandatory program requires that larger packers report not only negotiated sales, but also forward contract and formula arrangement transactions. In fact, of the 90+ reports issued under mandatory livestock price reporting, some 41 provide information that was not available under the voluntary reporting system.

To process the substantial volume of information now being received under the mandatory program within the time frames prescribed by the Act, a new database and electronic data transfer system with appropriate security features was developed. Industry standard data processing packages were identified to facilitate the timely transfer of data from packers to the Department.

Since the mandatory reporting program's implementation on April 2, several computer software and data transfer problems have been experienced. These problems have been dealt with as they have surfaced. Where technical problems have prevented the launch of a few reports, voluntary reporting was continued to ensure the availability of market information. Confidentiality

restrictions also have prevented the release of some information.

As you know, a computer program error was discovered last week that affected the calculation of beef cutout and primal cut values. These calculations involve the construction of carcass values based on individual meat cut prices. It is important to note that individual meat cut price data were properly reported to the Department by packers, and were correctly released to the public. The problem arose in the database software that aggregates the individual meat cut price data into primal or carcass component values and beef carcass values. Basically, ungraded boxed beef cut information was incorrectly brought into these calculations. This computer programming error affected Choice and Select grade carcass cutout values over the April 2 through May 11 time period.

The problem became apparent after reviewing the data reported through May 11. Expected seasonal trading patterns should have resulted in more significant increases in Choice-graded carcasses relative to Select-graded carcasses than were being reported. We immediately suspended publication of boxed beef reports on Monday, May 14, pending review of the situation. By Wednesday, May 16, we had determined that a computer programming error had occurred. We immediately made arrangements to utilize the spreadsheet system that had previously been used under the voluntary reporting program, allowing the reporting of beef cutout and primal values to resume on the afternoon of May 16.

The mandatory reporting system's database software that calculates the beef cutout and primal values had been tested prior to implementation. Data files were constructed and run through both the new system and the voluntary spreadsheet system. Unfortunately, these data files included only the data that should have been used in these calculations and did not include the extraneous data of ungraded box beef cuts, which had been incorrectly coded into the calculations. Although we encouraged packers to submit data in advance of program implementation, only some did so, primarily for purposes of testing electronic data transfer and data format requirements.

Late yesterday afternoon we released corrected values for the Choice and Select boxed beef cutout and primal cut values. Corrected calculations for the daily Select cutout values for the period April 3 through May 11 averaged \$0.43 or 0.37 percent higher per hundredweight than the values originally reported, ranging from a one-day low of -\$1.10 to a one-day high of \$1.94. The Choice cutout values averaged \$2.92 or 2.32 percent per hundredweight higher, ranging from a one-day low of \$0.73 to a one-day high of \$7.54. Choice and Select boxed beef cutout and primal cut values reported since Wednesday afternoon, May 16, have been correct.

To ensure that the mandatory price reporting system provides reliable and accurate market information, Secretary Veneman, on Friday, May 18, ordered a top to bottom review. Dr. Keith Collins, the Department's Chief Economist, was designated to lead an independent review team that is conducting a thorough review of the mandatory price reporting system. The team consists of six Departmental officials from outside the marketing and regulatory program area with expertise in economics, statistics and large database management. Their charge is to examine the mandatory reporting system process and procedures, review the performance of the system to date, assess the consequences of the misreporting of the boxed beef cutout values, and recommend to the Secretary actions that can be taken to enhance the integrity of the system and ensure accurate

reporting in the future. The team has been meeting with AMS staff and the mandatory reporting system contractor and expects to complete its work quickly.

Before closing, I would like to touch briefly on the issue of confidentiality. As you know, the Act requires that information obtained through this program be protected from disclosure. We adopted the so-called "3/60" guideline that is widely used throughout the Federal government. It requires that there be at least three reporting entities and that no reporting entity provide more than 60 percent of the information collected. Given the limited amount of information available on packers' purchasing patterns at the outset of mandatory reporting, we felt the 3/60 guideline was appropriate. Now that we have a better feel for purchasing patterns, we believe a review of the confidentiality guideline is possible. Given this possibility, we want to assure you that any change in the guideline or its application will continue to provide the same level of confidentiality protection. We hope to complete this review as quickly as possible.

Mr. Chairman, we truly regret the error that occurred in our calculation of the Choice and Select beef cutout and primal values. We believe that the mandatory price reporting program can provide important market information. I can assure you that we will work expeditiously to resolve remaining technical issues. We will continue to keep you informed of our progress.

This completes my testimony. I would be pleased to respond to questions.